

## Learning Flexibility & Dynamic Capabilities

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### **Abstract**

Capabilities within a firm are a result of the behavioral consequences of routine tasks. Such capabilities differ from firm to firm based on a firm's resources, orientations, cultures, and environments. Dynamic capabilities are adapting based on the firm's ability to make sense of these aforementioned elements, and reconfigure appropriately.

Knowledge within a firm resides in the memory of the tasks performed by its constituents. Each constituent (worker) has a repertoire of skills, and remember routines by simply doing them on a consistent basis. Following Schumpeter's concept of "circular flow," the firm's behavior becomes an orchestration of atomic tasks based on the flow of messages: external signals to work toward an end with internal signals to move the work forward. This 'factory model' concept contextually embeds knowledge tacitly within the individual constituents (Nelson and Winters 1982). Coordination and governance of such routines determine a firm's ability to adapt. This flexibility of the firm is generally considered a reactive behavior, but can also be preemptive (Johnson, Lee, Saini, and Grohmann 2003). Being capable to extract insights from constituent's routing, applying these insights in a problem-solving heuristic search for new routines, and having the flexible culture to implement the new routines (Nelson and Winters 1982) represent key aspects of the firm: that is, a firm's capabilities and its absorptive capacity are results of its flexibility.

Day defines capabilities as "complex bundles of skills and collective learning, exercised through organizational processes that ensure superior coordination of functional activities" (1994, page 38). Similarly, Eisenhardt and Martin (2000) describe capabilities as being dynamic manipulations of resources to create value for firms through the configuration process. As such, the assets become the resource endowments and the capabilities become the glue that binds assets together and enables them in a way to bring value to the firm (Day 1994). This configured capability can be distinctive or advantageous for a firm when it is scarce, relatively immobile, and rather difficult for a competitor to understand and imitate.

Many times such capabilities become embedded as core competencies of the firm (best practices), suggesting that it becomes difficult for firms to adapt. In high velocity markets, Eisenhardt and Martin (2000) maintain that firms should take care not to try to identify and generalize “too soon” to prevent the institutionalization of routines—a migration from “learning by doing” to “learning before doing.” As suggested by others (Zahra and George 2002), this institutionalization process has merit on its own, defined as absorptive capacity.

A firm’s ability to absorb information about its customers, its competitors, its environment, or other factors in the market will improve its ability to perform, innovate, and adapt. Absorptive capacity can be considered a capability of the firm, suggesting that some firms are more able to absorb and implement new knowledge faster, cheaper, and better than other firms. Realized absorption is a process of: acquisition, assimilation, transformation, and exploitation of externally generated knowledge (Zahra and George 2002). The cognitive domain of an organization, in this way, parallels human learning: from lower order abilities (remember, understand, and apply) to higher order abilities (analyze, evaluate, and create). Cognitive dissonance within a firm’s construct is generally triggered by crisis or culture, and the new information acquired is socially integrated into applicable processes that can generate value for the firm (Zahra and George 2002).

Learning, as the basis of absorptive capacity and as a driver for a firm’s capabilities, only occurs when cognitive dissonance leads to organizational change. As many would suggest, core competencies as embedded routines inherently become rigid (primal learning). As such, flexibility becomes the most important capability a firm can acquire—as ability to both react and intentionally preempt (Johnson et al. 2003, page 77): “market-focused strategic flexibility [is]

the firm's intent and capabilities to generate firm-specific real options for the configuration and reconfiguration of appreciably superior customer value propositions". A market-oriented firm can respond in traditional ways to the market or can create new ideas and drive market perceptions. Flexibility in this context is more robust, accounting for entrepreneurial abilities of a firm to produce Schumpeter shocks.

Flexibility then serves as the penultimate antecedent of higher ordered learning, absorptive capacity, and dynamic capabilities. It allows for potential capacity to be realized as learning. Such learning, in itself, becomes a dynamic capability of the firm. The ability to rationalize, to "make-sense" of the external cues, and meaningfully apply them to the constrained resources of the firm, is the ultimate motivator of capability for a firm (Johnson, Sohi, and Grewal 2004). Sense-making binds intuition and common sense with more engineered heuristic approaches. Sense-making becomes a way of being for a firm, an intrinsic motivator to be flexibility, ever-learning, and dynamic.

Sense-making appears to be similar to the absorptive capacity process; however, it is much more complex, because the agent actors for the firm are also more complex. Collectively, their perceptions, bounded rationality, and power dynamics create the will of the firm. This will is the antecedent for capabilities for a firm. The will determines how flexible sense-making becomes; which determines how well absorptive capacity can be realized; which determines what new configurations of resources can be implemented as routines; which determines what capabilities a firm can create; which determines the value propositions a firm can make to the market; which determines the performance success of a firm.

In conclusion, the will of the firm determines the success of the firm. As suggested by Johnson and colleagues, this will is a function of intent and knowledge. Nelson and Winters (1982) suggest knowledge is embedded in routines as the sum of the knowledge of its individual members in a specific firm context; intent could extend this idea. The will of the firm becomes the weighted sum of each individual's contextual knowledge—directionally weighted by the intentions of each constituent. These intentions are constrained by an individual's rationality, motivation, intellectual acumen, and power perceptions. The direction of the weight determines the overall alignment of the firm. If individual intentions are aligned, there is less-friction and therefore more-power for a firm to learn. Attempting to understand and align intentions of the individuals is essential for optimal firm performance. This can only be done by understanding and appropriately managing the perceptions and motivations of each individual. Creating a learning culture becomes an internal marketing function—communicating value propositions to the constituents.

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